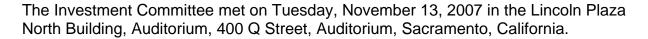


## CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM BOARD OF ADMINISTRATION INVESTMENT COMMITTEE

### MINUTES OF MEETING OPEN SESSION

November 13, 2007



The meeting was called to order at approximately 9:05 a.m. and the following members were present:

Charles Valdes, Chair
George Diehr, Vice Chair
Marjorie Berte
Robert F. Carlson
John Chiang, represented by Terry McGuire
Rob Feckner
David Gilb, represented by Debbie Endsley
Bill Lockyer, represented by Steve Coony
Priya Mathur
Tony Oliveira
Kurato Shimada
Maeley Tom

Investment Committee members excused: Mike Quevedo, Jr.

#### **AGENDA ITEM 2 – APPROVAL OF OCTOBER 2007 MEETING MINUTES**

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** that the October 15, 2007 Open Session minutes be approved as presented.

### AGENDA ITEM 3 - POLICY SUBCOMMITTEE REPORT

Ms. Mathur, Policy Subcommittee Chair, presented the October 12, 2007 Subcommittee Meeting Summary. The Subcommittee deliberated upon proposed revisions to Global Equity policies.

On **MOTION** by the Subcommittee, the Investment Committee approved the revised Global Equity Emerging Markets definition and the revised Policy on Manager Development Program I and II (MDP) Manager Transition.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the repeal of Policy on Permissible Equity of Emerging Equity Markets and the adoption of Policy on Emerging Equity Markets Principles as revised.

The Subcommittee also deliberated upon Policy Review and Consolidation Project items.

On **MOTION** by the Subcommittee, the Investment Committee approved:

- Revision of the following Investment and Risk Management Policies:
  - 1. Derivatives Investment Office
  - 2. Derivatives External Money Managers
  - 3. Developmental Investment Fund
  - 4. Risk Management
  - 5. Securities Lending
  - 6. Credit Enhancement Program
- Revision of the following Operations Policies:
  - 1. Custody Management
  - 2. Directed Brokerage Arrangement

The next Policy Subcommittee meeting is scheduled for December 14, 2007.

### AGENDA ITEM 4a – TOTAL FUND, Asset/Liability Management Workshop Preview

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. At the October 2007 meeting, staff provided a preview of new aspects planned for the Asset/Liability Management Workshop, including the global approach to equity allocation and the introduction of the Inflation-Linked Asset Class.

The general pension consultants provided additional Workshop preview presentations as follows:

- Michael Schlachter, Wilshire Associates Current Trends in Asset Allocation and Risk Management
- Allan Emkin, Pension Consulting Alliance Observations on Strategic Asset Allocation

The Chair directed staff and consultants to provide information regarding the level of discretion other state funds have relative to asset allocation; and information on which risk measures are most appropriate for the asset class.

Staff and consultants responded to questions from Robert Thacker, a CalPERS member, regarding risk management.

The Committee accepted the information report.

### AGENDA ITEM 4b – TOTAL FUND, Inflation-Linked Asset Class – Organizational Structure

Russell Read, Chief Investment Officer, and Farouki Majeed, Senior Investment Officer, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

Previously, the Committee approved an Inflation-Linked Asset Class (ILAC) Pilot Program comprising Commodities, Inflation-Linked Bonds, Infrastructure and Forestland, as well as the reclassification of existing investments into the ILAC component accounts. Approval of new investments will be contingent upon Committee approval of a governing policy and development of organizational structure and alignments of compensation incentives.

Staff presented the proposed organizational structure of the new ILAC.

At subsequent meetings, changes in incentive compensation will be presented to the Performance and Compensation Committee, and delegated responsibility for the ILAC component programs will be submitted to the Investment Committee.

The meeting recessed from 10:45 to 11:00 a.m.

#### **AGENDA ITEM 5 – REAL ESTATE**

There were no items to report.

### AGENDA ITEM 6 – ALTERNATIVE INVESTMENT MANAGEMENT (AIM) PROGRAM

There were no items to report.

### AGENDA ITEM 7a – GLOBAL FIXED INCOME, International Income Managers Annual Review

Curtis Ishii, Senior Investment Officer, Warren Trepeta, Senior Portfolio Manager, and Eric Busay, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On **MOTION** by Mr. Diehr, **SECONDED** and **CARRIED** to renew the contracts for all CalPERS' external international fixed income managers for a period of one year. The five managers are:

Alliance Bernstein L.P.
Baring Asset Management
Brandywine Global
Mondrian Investment Partners

PIMCO Rogge Global Partners Western Asset Management

The Chair directed that in the future the various tables used in the annual review agenda item be consolidated.

### AGENDA ITEM 8a – GLOBAL EQUITY, Selection of U.S. Relaxed Long-Only Managers for Spring-Fed Pool

Russell Read, Chief Investment Officer, Christy Wood, Senior Investment Officer, and Derek Hayamizu, Portfolio Manager, presented the item. Michael Schlachter, Wilshire Associates, was available to respond to questions from the Committee.

On July 20, 2007, staff exercised the spring-fed pool feature of the U.S. Relaxed Long-Only Request for Proposal (RFP) and re-issued the RFP to add additional firms to the spring-fed pool of managers. Staff described the proposal review and scoring process and recommended inclusion of three firms.

On **MOTION** by Ms. Mathur, **SECONDED** and **CARRIED** to approve the following managers for inclusion in the U.S. Relaxed Long-Only Managers Spring-Fed Pool:

Acadian Asset Management, Inc Axa Rosenberg Investment Management JP Morgan Asset Management

The Committee also approved the use of annual review contracts for this Spring-Fed Pool.

### AGENDA ITEM 8b – GLOBAL EQUITY, Corporate Governance Update

### Countrywide Financial Executive Compensation Update

Christy Wood, Chief Investment Officer, and Simiso Nzima, Investment Officer, presented the item.

Staff provided an update regarding media reports questioning the timing of stock sales by Countrywide's CEO and reports that the SEC has opened an informal investigation into the matter. Staff will continue to monitor the situation and update the Investment Committee accordingly.

### Update on Environmental Initiative

Russell Read, Chief Investment Officer, reported on his recent testimony before the Senate Banking and Finance Committee in Washington, DC, regarding material disclosure of greenhouse gas and carbon emissions that could be important to investors. Upcoming discussions are also scheduled with the SEC regarding standardized environmental disclosure.

## AGENDA ITEM 9a – LEGISLATION, 2007-08 Proposed Federal Legislative and Regulatory Investment Policy Guidelines

Wendy Notsinneh, Chief, Office of Governmental Affairs (GOVA), and Tom Lussier, CalPERS' federal legislative representative, presented the item.

Staff presented the federal legislative and regulatory investment policy guidelines which were drafted by Tom Lussier with input from GOVA and the Investment Office. The adoption of these guidelines will provide direction to staff and consultants to identify and focus their efforts on those issues that most impact the strategic direction of the CalPERS investment program. For state legislation, staff will continue to use CalPERS' Legislative Policy Standards, but could use the federal guidelines for direction if necessary.

On **MOTION** by Mr. Carlson, **SECONDED** and **CARRIED** to approve the 2007-08 federal legislative and regulatory investment policy guidelines as presented.

The Committee also directed staff to monitor federal proposals based on these guidelines, and seek opportunities to advance the identified goals.

### AGENDA ITEM 10a – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Consolidated Investment Activity Report

Russell Read, Chief Investment Officer, presented the item.

The Committee accepted the Consolidated Investment Activity Report. The total market value of the fund as of September 30, 2007, was approximately \$254.6 billion and the total book value was approximately \$199.3 billion.

# AGENDA ITEM 10b – CHIEF INVESTMENT OFFICER'S / CHIEF OPERATING INVESTMENT OFFICER'S REPORT, Chief Operating Investment Officer's Status Report

The Committee accepted the Chief Operating Investment Officer's Status Report.

#### AGENDA ITEM 11 - DRAFT DECEMBER 2007 AGENDA

The Committee accepted the proposed December 17, 2007 agenda.

### AGENDA ITEM 12 – PUBLIC COMMENT

There were no additional comments from the public.
~~~~~~~~~~~~~~
At this point, the following recusal statements were made:
Russell Read stated "out of an abundance of caution and consistent with state law conflict rules, I will recuse myself from Investment Committee Closed Session Agenda Item 4a [Real Estate Portfolio Manager Update] because of a conflict of interest under Government Code Section 87100."
The State Controller's representative, Terry McGuire, stated "out of an abundance of caution and consistent with the state law conflict rules, I will recuse myself from Investment Committee Closed Session Agenda Item 4b [Real Estate Portfolio Sector Update] because of a potential conflict under Government Code Section 87100."
The meeting was adjourned at 11:45 a.m.
The next Investment Committee meeting is scheduled for December 17, 2007 in Sacramento, California.
FRED BUENROSTRO

**Chief Executive Officer**